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Expert: Steve Pickering, Forex Trader Mentor

Forex Mentoring – Luxury or Necessity:
- Mentoring defined
- The dilemma facing traders
- Virtual Risk Manager
- What you should look for in a Mentor

Who is Steve Pickering?
Steve Pickering has had a long career in forex. He started in the back office at Bankers Trust International, London in 1971 and worked his way up to positions of chief dealer and head of capital markets in financial institutions in London, Copenhagen and Frankfurt. He started Trader Trainer, a training company in 1993 and has been involved in ACI (the Financial Markets Associations) training as an instructor and examiner. He is now 100% dedicated to helping traders succeed in forex trading.

Forex Mentoring – Luxury or Necessity

Good afternoon

Welcome to this Question and Answer session. I am honoured by being invited to participate and my subject this afternoon is mentoring. We will define mentoring and identify how it may be of assistance by examining some of the dilemmas faced by traders. We will then look at one of the most important yet neglected aspects of trading, risk and money management and how a mentor can help by being a 'virtual' risk manager. We will conclude by discussing what one should look for in a mentor.

The concept of mentoring in forex trading is not new. Indeed, in banks around the world, the role of the chief dealer has traditionally been one of mentoring, especially the junior traders. The chief dealer is typically the person in charge of trading. He takes his own positions and gives guidance on how much exposure and sometimes the general direction of the positions. In previous times, when bank trading rooms had many traders handling many currencies, the junior traders would align their positions to those of the chief dealer. This was fairly inefficient, but you were sure to be safe if you were the same way as the boss.

Some chief dealers were very hard on their juniors and used some quite un-scientific approaches: I remember a fiery Irish chief dealer who introduced a new trainee to the dealing room. "You're trading cable", he told the poor clueless trainee. He went out to a meeting leaving the trainee sweating and nervous and when he came back, enquired as to what the trainee's position was. "I haven't got one' was the meek reply. With that, the chief dealer picked up the phone to the broker, sold £5 million in the cable and said, "you have now!"

A mentor is defined as a 'wise and trusted guide or teacher'. He should show the trader the right way of approaching the market and by offering the benefit of his experience, give the trader as much understanding of the market as possible.

A mentor is the person who is going to impart his or her knowledge and experience to you, so that you can learn how to trade intelligently and produce consistent profits. He will show you how to create a plan and implement that plan. He will help you select a broker. He will help you choose a trading system and define the trading rules. He will explain the characteristics of forex trading and the different currency pairs, especially useful if you have come from other markets. He will look at your trading to advise and coach you to improve your performance. He will answer your questions on all aspects of forex trading.

Most importantly, you will improve your trading performance!

The Dilemma Facing Traders:

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One of my esteemed colleagues, in a recent Q & A, asked traders to be "hard on themselves" and "be their own supervisor". By definition, this is extremely hard to achieve. Trading has been described as the last frontier of free expression; you are completely free to enter the market and exit the market at will. At the same time, you must have iron discipline to control your risk. You are at once investor and trader and as an investor you must make demands on the traders. Most people do not have this ability to segregate duties inside their head. Indeed, some banks have difficulties implementing controls in their dealing rooms - witness the scandal in a large Australian bank recently, among others.

I believe that it is necessary to have someone to supervise you, because if statistics on trader losses are to be believed, the large majority of traders cannot supervise themselves.

If you decide to go your own way, you must follow some rules. Each trader has a notion of money management I am sure. How much do you commit to a trade? Where do you set your stops? Where do you take your profit? It looks ever so easy in theory, but unfortunately in many cases emotions confuse the issue. The aim is simply to maximise profits while protecting capital against undue loss. Every trade has to be considered as to whether it meets the criteria for entry and upon entry, the level of exit if the criteria is not sustained, i.e. the stop level. The amount of permissible risk is the value of the difference between the entry price and the stop. It should be clear that the capital allocated to the trade divided by the permissible risk dictates the amount traded, thus the level of leverage.

From the outset, it must be decided which trade offers the best opportunity. This involves looking at different currency pairs and bearing in mind the liquidity of each. Why? Because a heavily traded currency pair such as EUR/USD usually offers the smoothest market, whereas GBP/USD can 'spike' (unexpected jumps in the price) which can get you stopped out. You must not get caught in a position that chases its tail, such as being long EUR/USD, short EUR/GBP and short GBP/USD.

In my opinion, you are usually best off in the majors, because they offer the best liquidity and spreads.

How much to risk? Risking all your capital on one trade is ill advised! On the other hand, risking a very small amount of your capital rather limits your earning capacity. OK, you won't go bankrupt. You have to decide on a 'middle way', the way that suits your aggressiveness and one that can be adhered to. More on that later.

Why do we trade? To take advantage of the swings in the market. The idea is to control this so that we take advantage of the profits while controlling the losses. Therefore, one must have a pretty good idea of the level of the potential reward compared to the potential loss before entering into a trade. That is why we use a system with trading rules. The risk/reward (the potential profit divided by the permissible risk) should be at least 1.5:1 if not higher, in the 2.5:1 range. It will be difficult to have a sustainable ratio higher than this. When I say sustainable, I mean one that will give you consistent profits. Therefore, a strategy of taking 16 pips profit against a 12 pips loss is not very clever (even without spreads being taken into consideration).

Successful trading, therefore, would mean that you don't necessarily need to have more winners than losers, but larger winners than losers. It is a question of keeping the losses small. But here is another dilemma: If you set stops too close to the entry level, you will probably be 'stopped out' before the move in your favour. This is especially a problem on longer term trading (anything overnight and longer), because you will have to allow for adverse movements in the thin overlap market between the US close and Asian opening and that you will be looking for larger profits as you are tying up capital for longer periods of time.

While you are in a trade, you will have trade exposure, which is your willingness to assume risk in turn supported by your ability to lose. The ability to lose is how much risk capital you apply and that varies from person to person. That is why I am sometimes amused by claims of systems that show 200% profits in x time frame. What about the risk? Is their risk appetite the same as your risk appetite? Do they mention that they risk 100% of the capital to get 200% return. Possible but risky! So here is another dilemma: how much of your capital are you willing to risk? If you don't address this dilemma, one of two things will happen: you will not lose or gain much OR you will face economic ruin! (Oh yes, there is a remote chance you will make a fortune and then tell everyone that you have cracked it!)

So your aim is not to lose, but should there be a small loss, you are willing to accept it. If you suffer big losses, it will be the more difficult to recover to profit. For example, if you lose 10% of your capital, you have to make 11% to make up the loss and get profitable. If you lose 20%, you have to make 25% profit and if you lose 50%, you have to make 100% profit to make up for the loss!

The amount of capital you are willing to apply to trading activities and your attitude to risk are unique to you and if you don't understand the latter, you will either under perform with low risk, or (in the best case) over perform with high risk. These levels are a part of your overall plan and this plan must be adhered to at every moment. There is a tendency among traders to delude themselves as to what constitutes 'permissible' risk in the heat of the battle.

What is worse, is that new traders confuse speculation with gambling. Given what I have stated, it would be unwise to risk 100% of one's capital on one trade. But this is what some people do, by using 100, 200 and even 400:1 leverage. Ok, you have used your credit card to deposit $1,000 with Sleasy Forex and now you can 'control' $400,000. Yi-ha! You buy £200,000 in cable and immediately, on a 4 point spread, you have 'lost' 8% of your capital. Where do you set your stop? Very close! 50 points adverse movement and you are history! You might as well go to Vegas, in my opinion, because you are virtually 'punting' your capital on a single trade. I am sure that a few of you out there are going to tell me how much you have made with this strategy, but you are defying the laws of probability of the risk of ruin.

The important point here is that although the probability of success and the payoff ratio are a function of the trading system you wish to employ, the proportion of capital exposed is down to how you manage your money. And this is what many traders ignore. In a nutshell, the dilemma is how much capital do I risk?

The next set of dilemmas is based around trader action, or lack of it. Lack of action, or inaction could be defined as the trader missing out on profit opportunities. Perhaps you are waiting for a confirmation of a signal and in the meantime the market takes off in the predicted direction. This could lead to incorrect action, such as jumping in too late, facing the risk of a sharp reversal. Fear of losing can also lead to inaction. At one stage in one's trading life, one is faced with the Mother of All Losses, a loss that washes over like a Tsunami and leaves you feeling devastated. It happened to me in 1984. Luckily, I managed to regain composure very quickly and clawed back 60% of the loss in the same session. However, fear of losses can leave you indecisive. I used to be indecisive, but now I'm not so sure!

The very worst lack of action is where you as a trader will not own up to a lack of judgement; the loss is getting bigger and bigger, but you say to yourself, 'no, I'm right, it will come back', or 'I can't be wrong on this one'. The loss becomes so large that you lose all sense of reality and end up ruined.

I used to know a trader who never admitted his mistakes. His answer was simply 'I got the timing wrong'. He was not mistaken, because timing is crucial. I could give 3 traders the information that the Euro will end up 100 points higher than the current level in 3 hours and only one will get it right. One will buy too early, and possibly get stopped out before the move, the second will wait for confirmation of the move and jump in too late and get 'whipsawed' and stopped out and the third will hit it just right and ride the movement. A fourth, if I had not told him the magnitude of the move, may have gotten out too early.

The dilemma here, then, is entry and exit and although there are many forecasters who will give good entry levels, there are few who will tell you where to take profits - and probably rightly so, because they do not know your risk/reward ratios, after all. But where do you take your profits? There is always the temptation of taking any profit that is on the table, because any profit is better than a loss. It is not optimal. Is there a way of judging when to stay in and when to bail?

In my opinion, there is and it is a combination of having goals set and a certain amount of pragmatism, as long as the trade is going in the right direction. I utilise a technique where parameters of stop levels and risk/reward are a part of the trading rules. On entering a position, the price action is plotted on a chart, with levels for the stop loss and profit target shown. Therefore, by following rules, the trader can judge what is a 'performing' trade or not and act accordingly. If the trade is really performing, clear parameters for taking profit can be developed, avoiding in many cases the phenomena of having had a large unrealised profit end up at break even **(exhibit 1)**

The Virtual Risk Manager:

I maintain that the real money in forex trading is trading someone else's money. To do this, you have to prove that you are consistently profitable. The degree of profitability is not so important, but the consistency is.

Trading by yourself with limited capital means that you have to take excessive risk to make enough money to live off. You would not believe the number of people who come to me with $5,000 in capital expecting to make $100,000 in the first year! A more efficient way is to build up a track record creating solid consistent results for a couple of years and then get some 'seed' funding. But what are the criteria? Investors have a bumpy ride with forex, because it is not like investing in bonds or equities, where there is dividend/coupon income as well as capital gains (well, there is in forex, but the downside risks are unacceptable to most investors). Last year, for example, the first half was awful for most fund managers, but the big dollar weakness trend in the second half saved many of them. Even so, money poured into the sector (known as the Global Macro sector of Alternative Investments) and it looks like it will flow for a long time to come. Why? Asset Managers have to diversify their portfolios and forex has a low correlation compared to other asset classes.

Investors want to play it safe, though; no huge returns required - just don't make a loss! Drawdown is the key word here and many money managers will not tolerate draw downs of more than a couple percent and even then, it must be for a very short time span. These guys understand risk/reward - its their job!

I know a fund that returned 40%+ last year but only have a couple of million under management. Why not more? Because they have had a 30% drawdown and professional investors run a mile! On the other hand, I know a fund manager who made a modest single digit return last year, and his AUM (assets under management) increased by $25 million.

What does a fund manager do to provide the right numbers? He uses risk management and data analysis. Risk management to ensure that he will get the right numbers and data analysis to convince the investors that he has done the right thing. I won't go through the individual statistics here, but they include Sharpe Ratio, Sortino Ratio, Coefficient of Variance, standard deviation, correlation with indexes, average return, annual return, distribution of returns, etc.

Why is this of interest to you? Even if you are not going to be a fund manager, CTA or the like, you are, as I said, both investor and trader and so you need to be able to analyse your performance especially in the paper trading phase which I will come to.

If you are aiming to be a fund manager, you will have to go through a process which begins with gathering 2 years of authenticated track record, followed by getting some seed capital. Is it worth it? Well, I wondered this as I sat next to my friend in his jet black Ferrari 456 on the way to his country estate - yes is the answer!

How does this all tie in with mentoring? Like this: In a financial institution, the risk management function is segregated from the trading function. Rightly so, we cannot have the two in the same place. The risk manager has to be objective. You, as a trader are under no obligation to have a risk manager, but in my opinion, it is a necessity, not a luxury. You need someone to keep you on the 'straight and narrow' path.

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Luckily, by gathering trade data, the mentor come risk manager can perform multiple tasks; he can make sure that you are following your own rules and make sure that your data is meeting the standards required.

One of these standards is a benchmark created in the paper-trading phase. Many traders are impatient about going 'live'. When I think of all the 'gofer' jobs I did before I was let loose in the market and STILL needed close supervision, I am shocked that people are prepared to throw their money into trading without the slightest notion of whether they are any good at it! You must find a system and test it - over a prolonged period - to make sure that it performs consistently to your profit/loss ratio, your risk/reward ratio and your risk tolerance levels. If it does, you have to use the numbers generated as a benchmark, because traders have a tendency to do something quite different when they start trading live. I believe this is a 'trigger pulling syndrome' in many cases, because now it is real money and indecision creeps in.

Can all this be done by yourself? Personally I doubt it and that is why I utilise a system that combines monitoring with data analysis. I have come to realise that mentoring by simply saying 'Do as I say' has little value unless I can follow up on the results and guide accordingly. So the system consists of three components, namely a trade entry and monitoring system with a built in profit-taking decision making tool, a journal to monitor a group of trades and finally a journal to look at daily and annual performance.

A word about annual performance. In my many years of trading and observing traders at a high level, I have noticed that monetary amounts bring out the emotions in people. Think of the scenario: You are down $1,000, I mean a thousand bucks! just think what you could have done with 1K! I should have put it in the bank, I mean, a grand in 5 minutes! - been there? Done that? Or - $10,000 in a day- it's obscene- I mean I didn't have to WORK for it- wow! How many have done that and got the T-shirt that said 'I made $10k one day on forex-and gave it back and more the next day'?

Therefore, over the years I have developed a method of looking away from dollar performance and more at annualised return on capital.(**exhibit 2**) This has meant that traders have been able to set a budget target and monitor on a daily basis where they are relative to the target. Because it is annualised, it works on the 'square root of time' principle. That is, if you made 50% annualised ROC after the first month and nothing more for the rest of the year, you would end up with around 17% for the year. It would be prudent to ease off on the risk if you were above your target. For example, if you had a budget of 40% and you were at 50% in the above example, you could afford to go easy or even take a holiday for just over two weeks. Conversely, if you had a risk tolerance of 10% and you overstepped this, you can take a trading holiday until you are under the 10% limit again. The power of the latter method should not be underestimated: It leads to a system of applying a daily 'budget' for the trading day, based on performance to date. A 'must have' for any trader.

Gathering the data does not have to be so precise as for a full-blown fund manager, but risk/reward ratios and coefficients of variance are very important measures of consistency, and this is what you are aiming at. Above all, it is OK to have windfall profits, but large daily draw downs are to be avoided at all costs and this is reflected in the Sortino ratio, the average returns divided by the Downside Deviation (i.e. The standard deviation of the negative returns). You simply must keep your losses small. (**exhibit 3**)

What you should look for in a Mentor:

Choosing a mentor is largely subjective and being a mentor I am not sure that I can address this without some bias. I hope that I have made a case for a mentor to be a necessity rather than a luxury. Should a mentor be an advisor? I see there are mentors who invite traders to look over their shoulders and see how they trade. Again, this does not address the unique risk appetite and capital of the trader being mentored. And is your golf any better by watching Tiger Woods? Maybe.

The most important factor is the chemistry you have with the mentor. He should endeavour to learn about you and what your aims and goals are. He should respect the fact that you are being mentored so

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that you will be able to be independent and make consistent profits into the future. Language can be a problem, so ideally you should find a mentor who speaks your native language. Cultural differences also need to be taken into consideration.

I don't think that a mentor should be an investment advisor but there are some who combine this with coaching on techniques quite well.

Should a mentor be an Introducing Broker(IB)? In taking a commission on the turnover for introduced clients, there is the temptation for mentors to encourage high turnover and overtrading - churn and burn tactics.

Of course, the mentor should have forex trading experience - how else can he give the benefit of his experience? Should the mentor be actively trading? Perhaps, but his attention will be half on his own positions and he will have a tendency to 'talk his book'. After all, you are paying for the service, so the mentor should have 100% concentration on your needs.

Should a mentor be available on call 24 hours a day? That is up to the arrangement you have with the mentor, but I would say that this would be an expensive solution.

How is the mentor remunerated? It can be by the hour, by the trade (if the trades are analysed), per e-mail or a combination. Some mentors may also work on a profit sharing basis – no pain, no gain.

Should a mentor have a system? Yes, a mentor should be able to present a system that is known to have a good track record, but again, one man's meat is another man's poison, so it is up to the mentor to find the best system for the trader.

Finally, we come to how to find a mentor. If a trader is making a lot of money in the markets, he may well be satisfied with doing just that. Why complicate things by having to mentor others? Therefore, some ably qualified traders may not want to be mentors. The best recommendations come from word of mouth and there are a few out there (like me) on the net. There are many ex-interbank traders who, like me, have found that they can assist the new generation of traders, using their extensive experience to help traders reach their goals of consistent profits.

The most important point is that you become a better trader with your mentor.

Luxury or necessity –what do you think? I look forward to answering your questions and hearing your comments.

I will leave you with this: I worked with a trader who after a good day would turn to me and say:

"If I knew what I was doing, I 'd be brilliant"

VISUAL CONTENT
Click on the links to get a better understanding of the text.

Exhibit 1

Exhibit 2

Exhibit 3

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SESSION

FXstreet Moderator (Mar 24, 2005 10:01:24 AM)
Good morning, good afternoon, and good evening to all of you joining us today from different parts of the world. Welcome to today's Live Forex Expert Question and Answers session.

FXstreet Moderator (Mar 24, 2005 10:01:32 AM)
Please note that, from now on, you'll see that we have added some great new features to make the session easier to follow. First of all, you will find the whole speech of our guest in the left box of the chat. Now you can read the whole speech at once without any interruption, making its reading and comprehension easy. You won't miss a single thing from our guest host.

FXstreet Moderator (Mar 24, 2005 10:01:39 AM)
This brand new Q&A look & feel will allow users to start asking live questions from the very first moment of the chat.

FXstreet Moderator (Mar 24, 2005 10:01:48 AM)
Our guest host will first start answering a selection of the pre-registered user's questions, and then he/she will answer live Questions sent to the FXstreet Moderator during the course of the session. In order to stay tuned and have 100% implication in our brand new Q&A sessions, we strongly encourage you to enter the chat room 10-15 minutes before the session starts, to start the reading of the guest's speech and prepare any questions you might have on it.

FXstreet Moderator (Mar 24, 2005 10:02:15 AM)
For those who are unfamiliar with chat sessions like this, please feel free to ask questions at anytime, though the questions will be answered at the end of the session. When you place a question of any sort it will be posted directly to me, the moderator, before I pass them on to our guest expert. If there are questions directed to me I can reply privately to the person asking the question if that is needed.

FXstreet Moderator (Mar 24, 2005 10:02:26 AM)
We hope you find this new Q&A Sessions format of a great value. We wish you a wonderful experience with both our guest host.

FXstreet Moderator (Mar 24, 2005 10:02:32 AM)
Check the bottom-left of the page (after the speech text) to get the link for the TRANSCRIPT REQUEST. The Password for the transcript request will be made available towards the END of the session.

FXstreet Moderator (Mar 24, 2005 10:02:47 AM)
Today it gives me a great deal of pleasure to introduce Steve Pickering, who has had a long career in forex. He started in the back office at Bankers Trust International, London in 1971 and worked his way up to positions of chief dealer and head of capital markets in financial institutions in London, Copenhagen and Frankfurt. He started Trader Trainer, a training company in 1993 and has been involved in ACI (the Financial Markets Associations) training as an instructor and examiner. He is now 100% dedicated to helping traders succeed in forex trading. It's a pleasure to have Steve here with us today.

FXstreet Moderator (Mar 24, 2005 10:03:05 AM)
Remember that while Steve is answering the pre-registered users questions, please read the text speech so you can formulate as many questions as you want during today's Session.

FXstreet Moderator (Mar 24, 2005 10:03:13 AM)
With all that said, let's begin with our guest expert answering some of the great questions that you all have forwarded to Steve right before the Session starting time.

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steve (Mar 24, 2005 10:03:47 AM)
Hi, thank you for joining me in the session

steve (Mar 24, 2005 10:04:07 AM)
I will start with some of the fine questions that you have sent in

steve (Mar 24, 2005 10:04:27 AM)
What are the top 5 reasons that people do not/cannot make their living trading forex exclusively? michellelouie

steve (Mar 24, 2005 10:04:44 AM)
Lack of adequate capital, unrealistic expectations, lack of self-discipline, lack of business acumen, lack of knowledge and experience of the forex market.

steve (Mar 24, 2005 10:05:18 AM)
Do you believe the forex market can be traded profitably with a 90% technical approach or do you think fundamentals must play a bigger part? Thanks. mortech5

steve (Mar 24, 2005 10:05:40 AM)
Fundamentals, short term (economic news) or long term (economic factors) will always play a part in forex trading, but as so many follow technical analysis, thus becoming a self-fulfilling prophecy, the technical approach is paramount. So I would say 75%-25%.

steve (Mar 24, 2005 10:06:14 AM)
What would you suggest to a small trader whom is extremely determined to learn how to become efficiant at FX trading but does not have the capital to invest in worth while traning classes and have money to trade? Ruskibad

steve (Mar 24, 2005 10:06:51 AM)
It would not make sense to work with demo account for short term trading, but for longer term trading, a consistent track record can be established using a demo account. The alternatives are a ‘mini' account or spread-betting, particularly advantageous in the U.K (no tax). There are some books available, but the best is to get experience under realistic conditions.

steve (Mar 24, 2005 10:07:37 AM)
How do you determine what makes a course truely worth investing in? Thank you. jcocco

steve (Mar 24, 2005 10:07:53 AM)
A course that will teach you the basics of trading. That is the mechanics of trading, technical analysis, fundamental analysis, money management (although most course are skimpy on this subject) and trading psychology. If the course includes suggestions on systems that explain the basis for why they work, all the better. The ‘hype' is overdone in some courses, which can detract from really good content, but I am told it is the only way to sell to the U.S. public. Beware of courses offered by brokers that encourage high-turnover short-term trading.

steve (Mar 24, 2005 10:08:33 AM)
Generally I would say that you pay for what you get. The more individual tuition you get, the quicker you will become expert, but it costs money. Do not under estimate the importance of education. The best traders around today who came out of banks spent up to three years in a trading room learning before they started trading.

steve (Mar 24, 2005 10:09:11 AM)
there are so many so called expert that offer winning programs,how can you differentiate between good & the bad harry_wyk

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steve (Mar 24, 2005 10:09:34 AM)
It is very hard to judge without trying them live, and who has the depth of pocket to do that? Personally, I think that an independent organisation should be established to test and benchmark the systems and rank them on an annual basis, as is done with CTA's and fund managers. The only trouble is, as the disclaimers say, past performance is no indication of future performance.

steve (Mar 24, 2005 10:10:16 AM)
Logically, if someone has the 'winning program', why should they want to tell you about it? Finally, rarely do any of the experts take any consideration of their customer's risk tolerance when promoting their systems.

steve (Mar 24, 2005 10:10:46 AM)
what is the most to pay for a mentor...what is the least??? davecarte

steve (Mar 24, 2005 10:11:01 AM)
Good question! As much as you can afford! I mean that seriously. If you are only ever going to trade a mini account for 20c a point, it would make no sense to pay a lot of money, but if you have substantial capital, it would be a good insurance policy to get the best guidance available. If a mentor can prevent you making the mistakes that lead to ruin, then he has to be worth the sum of your capital. If he guides you to consistent profits, hours spent with him have also been valuable.

steve (Mar 24, 2005 10:11:39 AM)
what pshichological role does a mentor mean to my own trading? fryedru_213

steve (Mar 24, 2005 10:11:59 AM)
Knowing that you are not alone and that you can always get an answer; knowing that there is someone there to keep you out of trouble; knowing that you are getting the benefit of years of experience that you have not yet got; knowing that given the right coaching you can consistently make money.

FXstreet Moderator (Mar 24, 2005 10:13:10 AM)
Thank you very much for that, Steve.

FXstreet Moderator (Mar 24, 2005 10:13:15 AM)
Let us now turn to some of the great questions that you have all been sending in throughout the course of today's chat. We will attempt to answer as many questions as we can.

RumiFx (Mar 24, 2005 10:13:52 AM)
what about a mechanical system??? RumiFx

steve (Mar 24, 2005 10:15:38 AM)
Mechanical systems are fine because they force the trader into trading discipline. In fact, any system that has been tested and proven to give consistent results is good

steve (Mar 24, 2005 10:16:12 AM)
You have to do the testing. I don't think back testing is so useful-it has to be a system for here and now

steve (Mar 24, 2005 10:16:37 AM)
and if the system starts underperforming, it can be that market coditions have changed

S.R.G. (Mar 24, 2005 10:17:08 AM)
Steve please explain your view on scaling in/out of positions for someone with a 10k account and 2% risk

steve (Mar 24, 2005 10:18:58 AM)
There is not a lot of leeway here so the strategy has to be conservative. Nothing wrong with this, but trading multiple lots is not really possible, IMHO with this risk level

steve (Mar 24, 2005 10:21:02 AM)
Ideally, you should have enough capital to be able to 'pyramid', without too much leverage. It is otherwise a good strategy to be able to take profit on part of a position to cover eventual stops and to run the position as far as it can go

trader_2005 (Mar 24, 2005 10:21:26 AM)
what is the meaning of dicipline with regard to FX trading ?can you give example please?

steve (Mar 24, 2005 10:21:41 AM)
good question

steve (Mar 24, 2005 10:22:27 AM)
As trading is the 'last bastion of absolutely free expression' (according to Mark Douglas)

steve (Mar 24, 2005 10:22:49 AM)
a trader is free to do what he pleases, which is a double-edged sword

steve (Mar 24, 2005 10:23:03 AM)
it also means you can bend the rules at will

steve (Mar 24, 2005 10:23:46 AM)
so, if your rules say you are bailing out for a 20 pip loss, you have to do just that

steve (Mar 24, 2005 10:24:38 AM)
How many of you have said "it will come back, just another few points", and then it goes to 30 pips, 40 pips, then fear sets in-you know your wrong but can't admit it

steve (Mar 24, 2005 10:25:19 AM)
Thats is where discipline is needed - to admit your wrong at the first hurdle and cut the loss

Petera (Mar 24, 2005 10:25:50 AM)
Some experts offer chat room mentoring and via email - can these successfuly replace one-on-one mentoring

steve (Mar 24, 2005 10:27:38 AM)
Why not? whatever is best for your trading. Personally, I like to see exactly what the trader is doing/done-I am not sure that 'looking over the shoulder' of the mentor is useful.

steve (Mar 24, 2005 10:28:15 AM)
The important point is that the chemistry is right, so ask for the delivery that suits you best

charlie (Mar 24, 2005 10:28:53 AM)
Does having as many people learn the system you/I trade with help or hinder you/I in the long run, ie. they say once lots of participants catch on to your system in equity trading, that is, the less profit you can make at that point. Is this true? Sort of like beating the system participants whoever that may be, market makers, etc.

steve (Mar 24, 2005 10:30:48 AM)
Well Charlie, it can go both ways. If you have a really good system with many people using it, the

chances of the system working improve. Luckily, the forex market is so huge, that you will never get to that point, however..

steve (Mar 24, 2005 10:32:48 AM)
I do know someone who has a forecasting service which is used by some major banks, so when he says 'sell' to you with your 1 or 2 lots, the banks is selling $100+. If the system is a form of arbitrage, though, it is true that when people catch on, the 'arb' will vanish.

Boykie (Mar 24, 2005 10:33:42 AM)
Short or long term trading - which is usually more profitable?

steve (Mar 24, 2005 10:33:54 AM)
long term

steve1 (Mar 24, 2005 10:34:41 AM)
What is your favorite entry technique?

steve (Mar 24, 2005 10:35:59 AM)
The more experience you have, the more subjective it gets. Sometimes, it is a feeling for how the market is. For example...

steve (Mar 24, 2005 10:36:49 AM)
although you should plan your trade thoroughly, there was an example on Tuesday evening when cable just dropped like a stone

steve (Mar 24, 2005 10:37:44 AM)
and after going 150 pints in about 10 minutes, my gut feeling was 'this has gone too far, too quick', and it bounced 60 points- a good jobbing profit

steve (Mar 24, 2005 10:37:59 AM)
but normally, to return to your question

steve (Mar 24, 2005 10:39:14 AM)
I think that the safest method of entry is crossing MA-it's history lessons but relatively safe. You have to bear in mind RSI and other indicators

steve (Mar 24, 2005 10:39:56 AM)
The Scharff indicator gives you the signal in very black and white terms

sabry (Mar 24, 2005 10:40:43 AM)
How is it possible to measure the honesty of the Mentor? I mean giving all the information required during the training period and not partial information? Thank you

steve (Mar 24, 2005 10:43:12 AM)
The mentor should be working for you and you alone. You are paying him to give you all the information you need. My slogan is 'your success is my success', so I can't imagine why a mentor would want to be anything other than honest.

steve (Mar 24, 2005 10:44:57 AM)
That is also a reason why a mentor should be independent - that is, not working for a broker and as I said in my paper, if he is trading, there is a risk he will 'talk his book', that is, have a bias in favour of whatever position he currently holds -good or bad!

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skg (Mar 24, 2005 10:45:22 AM)
Could you explain further about your comment, "it would not make sense to work with a demo account for short term trading"?

steve (Mar 24, 2005 10:45:35 AM)
yes, good question

steve (Mar 24, 2005 10:47:30 AM)
The feeds for the rates on demo accounts (and indeed charts in general) come, at best from Reuters and are multi-bank sourced. That means that they do not bear much relationship to the actual interbank market price (on EBS, for example)

steve (Mar 24, 2005 10:48:21 AM)
There is also a time delay, so trading short term off these charts will give you a sense of false security.

steve (Mar 24, 2005 10:48:37 AM)
Another example of the danger of a demo account:

steve (Mar 24, 2005 10:49:59 AM)
I once made $5000 a day on a demo account by 'arbitraging' ACM's GBP/CHF demo price feed. I simply calculated the GBP/CHF cross from the swissy and cable prices and hit the price when there was a discrepancy.

steve (Mar 24, 2005 10:50:10 AM)
There is NO WAY they would let me tdo this live

CN (Mar 24, 2005 10:50:56 AM)
What is the correlation between currencies and equity markets? A Forex trader should "keep an eye" on the major indexes or not?

steve (Mar 24, 2005 10:52:06 AM)
I haven't seen the figure for a while, but the correlation is low. Hence asset managers regarding forex as an asset class for itself, but....

steve (Mar 24, 2005 10:52:25 AM)
(and this is why you must keep fundamentals in mind)

steve (Mar 24, 2005 10:54:00 AM)
If the US stock market is strengthening, it is possibly the result of foreign buying interest-therefore investors abroad will by dollars for their purchase, so it figures that the dollar would rise. Keep a particular look out for cross border M&A activity

rudolf (Mar 24, 2005 10:57:20 AM)
What is reasenable return per annum for experienced fx trader?

steve (Mar 24, 2005 10:58:31 AM)
Hi Rudolf..that is the 'old chestnut' as they

steve (Mar 24, 2005 10:58:57 AM)
It depends on the risk appetite, and I mean that sincerely.

steve (Mar 24, 2005 10:59:45 AM)
How much a trader will make is directly related to how much he will risk, so I would have to know what the traders risk profile is

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steve (Mar 24, 2005 11:00:08 AM)
but the trader should be looking for a Sharpe Ratio of 2

steve (Mar 24, 2005 11:01:08 AM)
that is the avearge returns minus the risk free return divided by the sstandard deviation of the returns

Uriel (Mar 24, 2005 11:02:33 AM)
Is it so that a large long term fundamentally based position, will statistically do better than many small short term technically based positions?

FXstreet Moderator (Mar 24, 2005 11:02:40 AM)
LAST QUESTION

steve (Mar 24, 2005 11:03:36 AM)
I would so. Think of Warren Buffet, short the dollar from 1.10 on fundamentals

steve (Mar 24, 2005 11:03:57 AM)
I would say so, that should have read

steve (Mar 24, 2005 11:04:42 AM)
The longer the period, the more fundamentals are relevant and the technicals are more reliable too.

FXstreet Moderator (Mar 24, 2005 11:06:48 AM)
If your question was not answered during the course of this chat, please contact Steve for a personnalized answer.

FXstreet Moderator (Mar 24, 2005 11:06:55 AM)
We at FXstreet.com would like to thank Steve Pickering for being our guest expert, and also thank you all for participating in today's Q&A session. You can contact Steve @ his e-mail : info@forextradermentor.com. We also hope you liked this new Q&A look&feel and format and that, above all, you found it useful.

FXstreet Moderator (Mar 24, 2005 11:07:01 AM)
FEEDBACK: Please feel free to post feedback about today's session, it will be very important for us to determine if you like our new Q&A Sessions format. Also say what you thought was good and bad and what you think could be improved. We would appreciate this very much. I will be logged on for a while longer

FXstreet Moderator (Mar 24, 2005 11:09:06 AM)
Transcript Request: Check the bottom-left of the page (after the speech text) to get the link for the TRANSCRIPT REQUEST. Use the following password: steve64736. Thank you. SPECIAL REMINDER: you have to request the transcript within an hour and a half of the end of the session. This password is only valid for today's session.

FXstreet Moderator (Mar 24, 2005 11:09:14 AM)
We would like to let you know that right NOW there is also a Q&A Session in the Futures site. Be sure you join us by clicking here : http://futures.fxstreet.com/futures/chat/chatsigned.asp .

FXstreet Moderator (Mar 24, 2005 11:24:25 AM)
Thank you everyone for participating today. I leave the chat now, if you need any further assitance, please e-mail me : toni@fxstreet.com